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May 8, 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 29554

Re: Ex Parte CC Docket 96-45, Federal-State Joint Board on Universal Service,
CC Docket 96-98, Implementation of the Local Competition Provisions in
the Telecommunications Act of 1996

Dear Mr. Caton:

Today, V.J. Callahan, G.R. Evans, F.J. Gumper, S.A. Guyer, K.W. Rust and I met at the
request of the Bureau Staff with R. Bruno, T. David, F.K. Franklin, K.B. Levitz, J.
Morabito, K.P. Moran, A. Mulitz and T. Peterson of the Common Carrier Bureau to
discuss NYNEX's position regarding Access Reform, Interconnection and Universal
Service. The attached documents represent the basis for the presentation and discussion.

In accordance with Section 1.1206(a)(1) of the Commission's rules, two (2) copies of this
notice are being submitted to the Secretary of the FCC today.

Sincerely,

Attachments:

CC: Mr. R. Bruno
     Mr. T. David
     Ms. F.K. Franklin
     Ms. K.B. Levitz
     Mr. K.P. Moran
     Mr. J. Morabito
     Mr. A. Mulitz
     Mr. T. Peterson

GUIDING PRINCIPLES

● Open the Network to Competition

● Pay for the Network

● Promote Universal Service

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OPENING THE NETWORK

- Interconnection: [*Sect. 251(c)(2)*] linking networks;

- Unbundled Access: [*Sect. 251(c)(3)*] augmenting competitors' networks;

- Resale: [*Sect. 251(c)(4)*] "off-the-shelf" networks.

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PAY FOR THE NETWORK

- ● Resale [Sect. 252(d)(3)] : retail prices excluding avoidable costs;

- ● Network Elements [Sect. 252(d)(1)] : costs plus reasonable profit;

  » *Costs* must be determined without reference to rate-of-return or other rate-based proceeding.

PAY FOR THE NETWORK

- Act does not bar reference to embedded costs; *"rate of return"* [Sect. 252(d)(1)(A)] does not equate to *"embedded costs"*

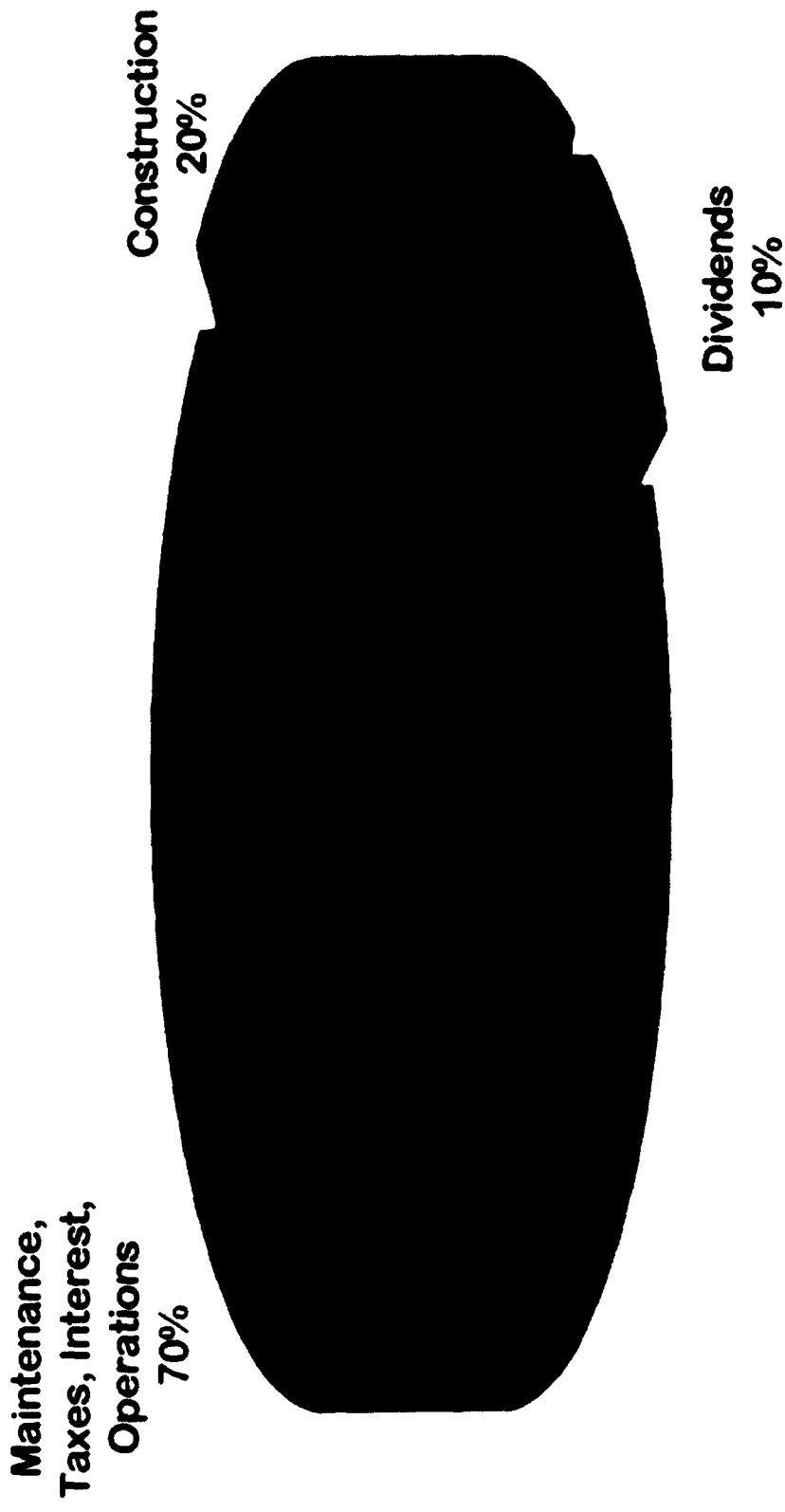- TSLRIC ignores reality of existing plant in use to provide service.

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PUBLIC POLICY CONSEQUENCES

- **TSLRIC ignores real costs:**
  - » Embedded *capital* not stranded *investment*
- **Reduces incentives for future capital deployment:**
  - » Riskier investment and greater capital costs as revenues are reduced

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PUBLIC POLICY PRINCIPLES

- Competition will drive prices down to economic costs; regulators should promote competition, not seek to impose confiscatory rates.

- Arbitrage effects on current revenue streams must be recognized and dealt with in a comprehensive manner.

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How Revenues Are Used

Maintenance, Taxes, Interest, Operations
70%

Construction
20%

Dividends
10%

Public Policy Benefits of
NYNEX's Adaptive Regulatory Model

- Provides clear signals, in advance, to the market of changing regulatory framework.

- Provides incentives to LECs to facilitate the evolution of competition.

- Addresses concerns of regulators and competitors that LECs will use pricing flexibility to hinder competition.

- Addresses concerns of LECs and provides assurance that regulation will adapt and keep pace with competitive developments.

- Eliminates continuing regulatory scrutiny of waivers requested in response to competition.

UNIVERSAL SERVICE

- WHAT IS THE PROBLEM TO BE SOLVED?

  - Very High Cost Areas

  - Telephone Subscribership

  - Education and Health Access

UNIVERSAL SERVICE
PRINCIPLES

- **CORE SERVICES** - RESIDENTIAL LINE WITH ACCESS TO LOCAL AND LONG DISTANCE, TOUCH -TONE, DIRECTORY LISTING, OPERATOR SERVICES, EMERGENCY SERVICES, AND TRS.

- **REPLACE IMPLICIT SUPPORT MECHANISMS** - DEM WEIGHTING, LONG TERM SUPPORT, EXISTING USF

- **CARRIER COMMON LINE** IS AN ACCESS REFORM ISSUE

- **INTERSTATE RETAIL REVENUE SURCHARGE** - MONIES COLLECTED THROUGH A SINGLE MECHANISM

- **TARGETED HIGH COST ASSISTANCE** - RATE OF RETURN LECS USE ACTUAL STUDY AREA COSTS.

- **PRICE CAP LECS** - USE BCM MODEL

NYNEX's Position on the Benchmark Costing Model (BCM)

The BCM should be used to target support for Price Cap LECs providing core universal service to rural, insular and high-cost areas.

Advantages of Using the BCM for Targeting Support

- Competitively and technologically neutral

- Facilitates portability of high-cost support

- Treats all carriers equal regardless of size, area served and whether incumbent LEC or new entrant.

The BCM is not a
Valid Ratemaking Tool

- It is useful for identifying areas of the country that are relatively more costly to serve

- It should only be used for targeting support to Price Cap LECs providing core universal service to high-cost areas

The BCM should not be used as a Ratemaking Tool

- Designed to identify high-cost serving areas

- Not a true measure of economic or actual cost

- Underestimates the total cost of providing service

- Does not fully replicate the network architecture and costs of serving dense urban areas

BCM Limitations

- Overhead loading factors underestimate actual operational expenses

- Does not include the investment in the drop wire and network interface

- Riser cable is not a component of the network design

- For urban areas with loop lenghts of < 12,000 ft, the model uses analog copper feeder. In urban areas, because of space restrictions in cable vaults and conduit, fiber facilities are used in almost all cases.

PRICE CAP LECs
BCM FUNDING

Cost Range	Support
< $60	$0
$60 - $70	$10
$70 -$80	$15
$80 - $90	$20
$90 - $100	$25
> $100	$30

PRICE CAP LECS

Current Funding $295M

BCM Results $521M

PRICE CAP LECS
$ (M)

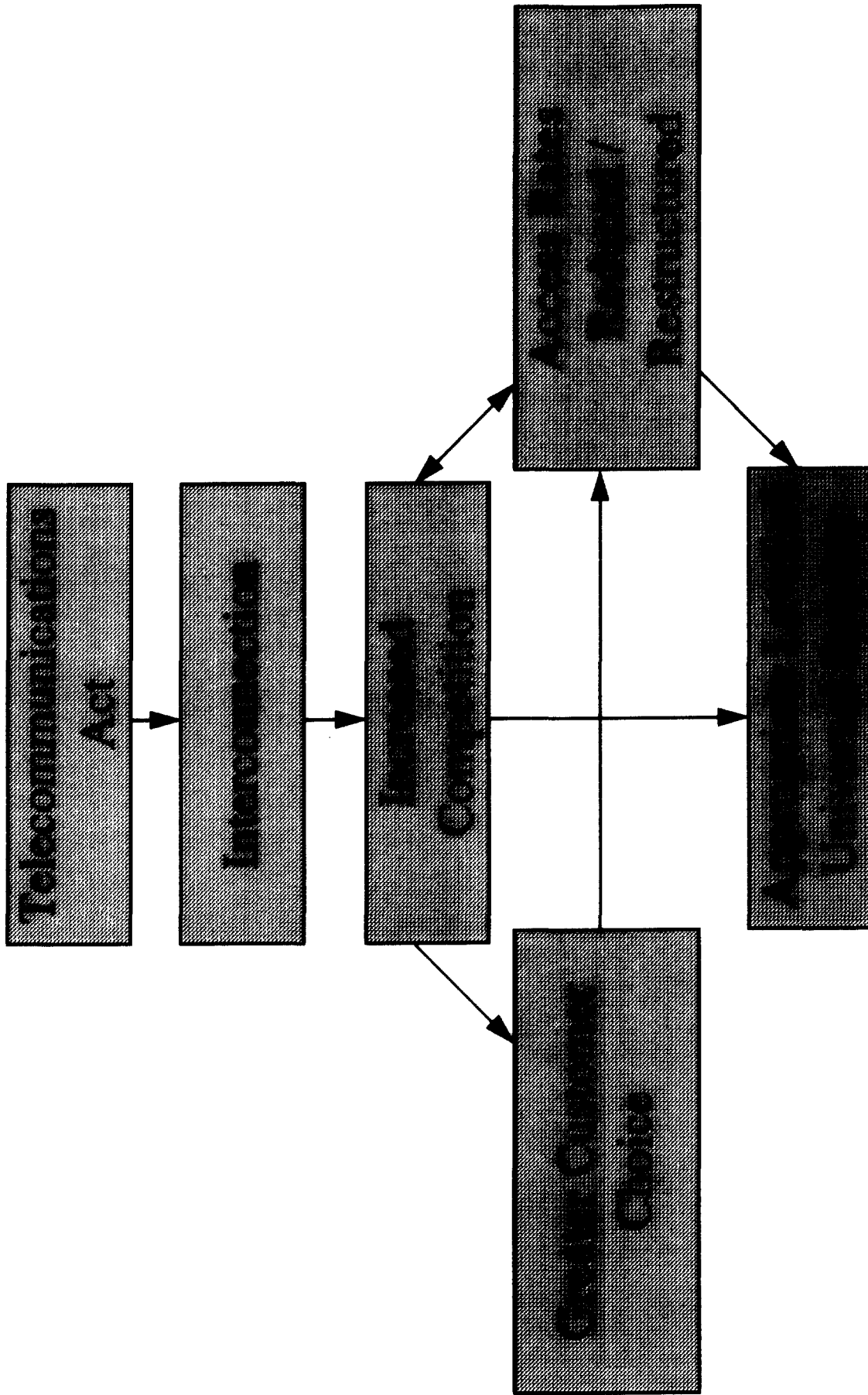|	Current	New
AMERITECH	---	$11
BELL ATLANTIC	$4	$8
BELL SOUTH	$48	$48
GTE	$177	$185
FRONTIER	$3	$10
LiNCOLN	---	$5
NYNEX	$8	$13
PACTEL	---	$25
SNET	---	---
SOUTHWESTERN	$1	$55
UNITED	$51	$46
US WEST	$3	$114

NYNEX EDUCATION PLAN

- **VISION FOR EDUCATION** DEVELOPED WITH ASSISTANCE OF EDUCATION TELECOMMUNICATIONS COUNCIL
- **TOTAL NATIONWIDE COSTS** ESTIMATED BY COMMISSION - DIFFERENT PER STUDENT BENCHMARK PRICE AND BENCHMARK DISCOUNT FOR RURAL AND URBAN AREAS
- **SCHOOLS DEVELOP PROPOSAL** FOR BRINGING TECHNOLOGY INTO THE CLASSROOM
- **SCHOOL PROPOSALS CERTIFIED** BY STATE AUTHORITY
- **TELECOMMUNICATIONS CARRIERS** BILL SCHOOL FOR DISCOUNTED AMOUNT AND COLLECT REMAINDER FROM FUND ADMINISTRATOR
- **STATE COULD SUPPLEMENT DISCOUNT** FOR ADDITIONAL CREDIT FOR INTRASTATE SERVICES

THE NYNEX
SINGLE FUNDING MECHANISM
FOR UNIVERSAL SERVICE
($MILLIONS)

	DESCRIPTION	AMOUNT (millions)
1	Lifeline	$123
2	Linkup America	$19
3	High-Cost for Rate of Return Carriers	$401
4	DEM weighting for Rate of Return LECs	$275
5	High-Cost for price cap carriers based on BCM	$520
6	Schools	$1,445
7	Public Libraries	$83
8	Health Care Providers	NA
9	Total (sum of lines 1 to 8)	$2,866
10	Base Case Industry Interstate Retail Revenues	$64,205
11	Adjusted Interstate Retail Revenues (Line 10 - sum (Line 1 through Line 5) Refer to Footnote 1	$62,867
12	Federal Surcharge ((Line 9 / Line 11)	4.56%

Footnote 1
For Price Cap LECs, to the extent that funding for the new USF exceeds the amount for the old USF, that amount will be used by the receiving LEC to reduce its interstate rates.

Telecommunications Act → Interconnection → Interconnection Contracts

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